

PEND OREILLE COUNTY, WASHINGTON
January 1, 1994 Through December 31, 1994

Schedule Of Findings

1. Public Funds Were Misappropriated And Accounting Records Were Falsified And Destroyed By An Employee Of The Mental Health Department

Our audit of the financial records of the Mental Health Department of Pend Oreille County revealed that at least \$4,707.20 in public funds was misappropriated by a prevention specialist during the period January 1, 1993, through October 31, 1995. Accounting records were falsified and destroyed in an attempt to conceal these losses. The table below summarizes these losses.

<u>Description</u>	<u>Amount</u>
(1) Taking cash back from bank deposits (net)	\$ 933.44
(2) Writing checks to cash/herself/blank payee from the bank account (net)	2,057.32
(3) Issuing checks to vendors for personal expenses	<u>1,716.44</u>
Total Losses	<u><u>\$4,707.20</u></u>

These funds were misappropriated as described below.

As explained further below, the prevention specialist manipulated substance abuse revolving fund checking account transactions in a variety of ways to obtain a personal benefit and gain from the operation of the fund. Some bank records for the revolving fund were also prematurely destroyed by the custodian.

a. There were three methods used to place additional funds in or to obtain additional funds for the revolving fund bank account.

(1) Placing additional funds in the account - Unrecorded revenue transactions for the substance abuse program were deposited in the revolving fund bank account rather than with the Pend Oreille County Treasurer's Office. The custodian did not receipt these check payments to the mental health department in any way.

(2) Obtaining additional funds for the account - The following two methods were used:

(a) Fictitious disbursement transactions were processed for reimbursement by the county. While supporting receipt documents were on file for these transactions, checks were never issued to the vendors for these purchases.

(b) While revolving fund checks were issued to vendors for certain

purchases, the checks for these transactions were destroyed by the custodian because they never subsequently cleared the bank. These transactions had been processed for reimbursement by the county, and supporting receipt documents were on file.

There were many examples of falsified vendor invoices, cash register receipts, and other types of receipts on file in the supporting documents for expenditure transactions reimbursed by the county. These included:

(a) Invoices which did not match the type of document issued by the vendor associated with the transaction. During our January 11, 1996, interview, the custodian admitted that she:

(1) Had a book of generic invoices at her home which were reportedly used to obtain reimbursement for certain transactions when the receipts for these purchases had been lost or misplaced.

(2) Used the optical scanning function on her office computer to create a vendor invoice which was subsequently used to obtain reimbursement for many transactions.

(b) The use of several different types of cash register tapes which did not match the type of document issued by the vendor associated with the transaction.

(c) The use of sequentially numbered restaurant receipt ticket stubs even though the transactions reportedly occurred at different restaurants, in different cities, and on different dates.

(d) Use of the same cash register tape, vendor invoice, or other type of vendor receipt document to obtain reimbursement for an expense item on more than one occasion.

There was no public purpose served by any of these expenditures from the fund because they represented fictitious or personal purchases made by the custodian. After these transactions were processed, there was a reserve of additional funds in the bank account, over and above the imprest fund amount, which was available for other purposes and uses by the custodian as further explained below.

b. There were three methods used by the custodian to withdraw these additional funds from the revolving fund bank account:

(1) Taking "cash back" from bank deposits - The custodian withdrew funds from both the deposits of county warrants reimbursing the revolving fund, and the deposits of unrecorded revenue transactions for the substance abuse program. The net amount of loss from this method was \$933.44.

(2) Writing checks to "cash/herself/blank payee" from the bank account - The custodian wrote checks to cash, to herself, or to a blank payee from the revolving fund bank account. Some of these funds were actually used to make legitimate purchases on behalf of the substance abuse program. While revolving fund checks were not issued directly to vendors in these cases, the supporting documents for these expenditures were subsequently submitted for reimbursement. Since the amount of all checks issued to cash, to herself, or to

a blank payee exceeded the amount of transactions reimbursed by the county, only the excess amount of the funds obtained in this manner have been listed as a loss of funds, in this case (\$1,218.22). We then excluded all known fraudulent transactions reimbursed by the county from this calculation (\$839.10). Thus, the net amount of loss from this method was \$2,057.32.

(3) Issuing checks to vendors which were never subsequently reimbursed - The custodian issued checks to a wide variety of vendors which were never subsequently submitted to the county for reimbursement. While these checks cleared the bank, they represented personal purchases by the custodian. The amount of loss from this method was \$1,716.44.

The prevention specialist was solely responsible for all aspects of the Substance Abuse Revolving Fund bank account during the period of this loss. During our January 11, 1996, interview, she admitted that she falsified accounting records and misappropriated public funds from the account. Her supervisor immediately placed her on administrative leave pending a personnel hearing on this matter. Her employment with Pend Oreille County was subsequently terminated. There were federal funds involved which have been included in the Schedule of Questioned Costs.

RCW 42.20.070 states:

Misappropriation and falsification of accounts by public officer. Every public officer, and every other person receiving money on behalf or for or on account of the people of the state or of any department of the state government or of any bureau or fund created by law in which the people are directly or indirectly interested, or for or on account of any county, city, town, or any school, diking, drainage, or irrigation district who:

(1) Shall appropriate to his or her own use or the use of any person not entitled thereto, without authority of law, any money so received by him or her as such officer or otherwise; or

(2) Shall knowingly keep any false account, or make any false entry or erasure in any account, of or relating to any money so received by him or her; or

(3) Shall fraudulently alter, falsify, conceal, destroy or obliterate any such account; or

(4) Shall willfully omit or refuse to pay over to the state, its officer or agent authorized by law to receive the same, or to such county, city, town or such school, diking, drainage, or irrigation district or to the proper officer or authority empowered to demand and receive the same, any money received by him or her as such officer when it is a duty imposed upon him or her by law to pay over and account for the same, shall be punished by imprisonment in a state correctional facility for not more than fifteen years.

RCW 9A.56.030 states:

Theft in the first degree. (1) A person is guilty of theft in the first degree if he commits theft of:

(a) Property or services which exceed(s) one thousand five

hundred dollars in value; or

(b) Property of any value taken from the person of another.

(2) Theft in the first degree is a class B felony.

RCW 9A.60.020 states:

Forgery. (1) A person is guilty of forgery if, with intent to injure or defraud:

(a) He falsely makes, completes, or alters a written instrument or;

(b) He possesses, utters, offers, disposes of, or puts off as true a written instrument which he knows to be forged.

(2) Forgery is a class C felony.

RCW 40.16.020 states:

Injury to and misappropriation of record. Every officer who shall mutilate, destroy, conceal, erase, obliterate, or falsify any record or paper appertaining to the officer's office, or who shall fraudulently appropriate to the officer's own use or to the use of another person, or secrete with intent to appropriate to such use, any money, evidence of debt or other property intrusted to the officer by virtue of the officer's office, shall be punished by imprisonment in a state correctional facility for not more than ten years, or by a fine of not more than five thousand dollars, or by both.

RCW 9A.72.030 states:

Perjury in the second degree. (1) A person is guilty of perjury in the second degree if, with intent to mislead a public servant in the performance of his duty, he makes a materially false statement, which he knows to be false under an oath required or authorized by law.

(2) Perjury in the second degree is a class C felony.

The following internal control weaknesses allowed these losses to occur and not be detected by management officials in a timely manner.

- a. There was an inadequate segregation of duties. The Substance Abuse Revolving Fund custodian was responsible for all aspects of the fund, including issuing checks for purchases, preparing claims for reimbursement by the county, making bank deposits, and reconciling both the monthly bank account and the amount of the imprest fund. However, there was no periodic management review of the work performed by the custodian which would accomplish the same objective as a segregation of duties between two or more employees.
- b. No one independent of the revolving fund bank account custodian reconciled both the monthly bank account or the amount of the imprest fund.

We recommend Pend Oreille County seek recovery of the misappropriated \$4,707.20 and

related audit/investigation costs from the prevention specialist and their insurance bonding company, as appropriate. We further recommend the Washington State Office of the Attorney General and the Pend Oreille County Prosecuting Attorney review this matter and take whatever action is deemed necessary under the circumstances. Any compromise or settlement of this claim must be approved in writing by the Attorney General and State Auditor as directed by RCW 43.09.260.

Bond coverage for county employees is as follows:

Washington Governmental Entity Pool (WGEP)
Crime Coverage Policy
Policy No. WGEP 002
Amount of Coverage: \$100,000 per employee
Period of Coverage: September 1, 1992, to September 1, 1996

We also recommend Pend Oreille County review overall accounting controls over the Mental Health Department Substance Abuse Revolving Fund, correct the weaknesses outlined above, and implement an effective system of internal control designed to ensure the protection of public assets.

2. Controls Over Cash Receipting Should Be Strengthened

During our review of the receipting system we noted the following internal control weaknesses:

- a. The county could not provide a comprehensive list of collection sites and bank accounts.
- b. Departments are using blank redi-form receipts. The use of "redi-form" receipts increases the risk that errors and irregularities could occur and not be detected in a timely manner. This is because the assignment of the numerical sequence to these receipt forms is not under the division's control. Without numeric control over receipts, there can be no assurance that all receipts are recorded and deposited.
- c. Public funds are not being deposited intact within 24 hours of receipt.
- d. Cash/check composition are not recorded on receipts.
- e. Bank accounts are located at various banks. The county treasurer was unable to identify all county bank accounts.
- f. Improper separation of duties exist. At some departments, the same individual, receipts the funds, records the deposits, makes the deposits, writes the checks and reconciles the bank statement without any independent review.
- g. The county does not have established written policies and procedures for cash receipting at the decentralized locations.

RCW 36.48.010 states:

Each county treasurer shall annually at the end of each fiscal year or at such other times as may be deemed necessary, designate one or more financial institutions in the state which are qualified public depositories as set forth by the public deposit protection commission as depository or depositories for all public funds held and required to be kept by such treasurer.

Washington State Constitution, Article XI, Section 15, states:

All moneys, assessments and taxes belonging to or collected for use of any county, city, town or other public or municipal corporation, coming into the hands of any officer thereof, shall immediately be deposited with the treasurer, or other legal depository to the credit of such city, town, or other corporation respectively, for the benefit of the funds to which they belong.

RCW 43.09.240 states:

Every public officer and employee, whose duty it is to collect or receive payments due or for the use of the public shall deposit such moneys collected or received by him or her with the treasurer of the taxing district once every twenty-four consecutive hours.

The weaknesses identified increase the risk of theft and the possibility that county assets

will be misused or misappropriated and not detected in a timely manner, if at all.

These conditions have occurred because the county does not have written procedures from which to establish and maintain proper control over county cash receipting.

We recommend the county strengthen the cash receipting internal control systems. This includes, but is not limited to, the following:

- a. Accounts should only be established at financial institutions designated by the county treasurer. In addition, a list should be prepared of all cash collection sites. The county should authorize all petty cash funds, change funds, and revolving accounts.
- b. Blank redi-form receipts should be replaced with prenumbered and preprinted receipts controlled by the treasurer.
- c. All public funds should be deposited intact within 24 hours of receipt.
- d. Cash and check composition should be recorded on receipts to assure that all receipts are recorded and deposited.
- e. All Pend Oreille County checking accounts should be established through the county treasurer.
- f. Proper separation of duties should be established with an independent review being conducted.
- g. The county should establish and implement written policies and procedures for cash receipting at the decentralized locations.

3. The County Sheriff Needs To Improve Property And Evidence Inventory Controls

During 1994, the county sheriff received \$19,617 in revenues from a police auction. The sheriff's department did not retain proper accounting records to distinguish between drug seized property or unclaimed evidence property. All the funds received from the police auction were deposited in the Drug Task Force Fund. The department did not retain an inventory log of drug-seized property to properly account for the funds deposited into the account. The department did not retain a list of all property submitted for the police auction and reconcile the results to items sold.

RCW 63.40.030 states in part:

The moneys arising from sales under the provisions of this chapter shall be first applied to the payment of the costs and expenses of the sale and then to the payment of lawful charges and expenses for keeping of said personal property and the balance, if any, shall be paid into the county current expense fund.

RCW 69.50.505 states in part:

(g)(1) When property is forfeited, the seizing agency shall keep a record indicating the identity of the prior owner, if known, a description of the property, the disposition of the property, the value of the property at the time of seizure, and the amount of proceeds realized from disposition of the property.

(2) Each seizing agency shall retain records of forfeited property for at least seven years.

Because the county did not maintain complete property inventory records, we are unable to determine if the amount deposited into the drug task force was accurate.

The county sheriff has not established policies and procedures to ensure that a comprehensive set of records are retained.

We recommend that the county establish and implement procedures to ensure records are maintained in manner prescribed by state statute.

PEND OREILLE COUNTY, WASHINGTON
January 1, 1994 Through December 31, 1994

Schedule Of Federal Findings

1. The County Should Develop An Integrated Grant Accounting System

The county has not fully integrated grant accounting into the general ledger system. Additionally, the county has not developed general ledger coding to identify grant related expenditures.

The "Common Rule" for *Uniform Administrative Requirements for Grants and Cooperative Agreements With State and Local Governments*, Subpart C. Section_20,(b)(2) Accounting Records, states in part:

Grantees and Subgrantees must maintain records which adequately identify the source and application of funds provided for financial-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income

OMB Circular A-128, *Audits of State And Local Governments*, paragraph 8.b(1) states in part:

In order to determine which major programs are to be tested for compliance, State and local governments shall identify in their accounts all Federal funds received and expended and the programs under which they were received

Grant accounting is not integrated because resources have not been dedicated to bridge the separate accounting systems used by the county. Additionally, the county's chart of accounts has not been established to provide the required accounts.

As a result, we could not trace all expenditures reported in the Schedule of Federal Financial Assistance and Schedule of State Financial Assistance directly to the county's general accounting records, nor were we able to gain sufficient assurance that grant expenditures are not charged to more than one grant. However, all grant revenue was appropriately coded and recorded. Thus, we are reasonably certain that the Schedule of Federal Financial Assistance and Schedule of State Financial Assistance list all amounts and sources of grants received by the county.

We recommend county officials implement the steps necessary to integrate the required grant accounting into the general ledger accounting system.

2. Internal Controls Over Fixed Assets Should Be Improved

Our audit of the county's fixed asset system disclosed the following internal control weaknesses:

- a. Subsidiary inventory ledgers do not reconcile to the general ledger.
- b. The annual physical inventories of the county's public works fixed assets are not independent.
- c. The county's fixed assets are not tagged to safeguard the public assets in a timely manner. Assets purchased during the current year are not tagged until physical inventory is completed a year later.
- d. Detailed subsidiary listings of the fixed assets are not maintained with sufficient information to determine the valuation basis.
- e. We found an asset purchased with state and federal funds in the amount of \$13,000 that was not recorded in the property inventory records.

"Common Rule" for *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*, issued by the Office Management and Budget, March 1988, requires in Subpart C, Section_.32(d)(1):

Property records must be maintained that include a description of the property, serial number or other identification number, the source of the property, who holds the title, the acquisition date, and the cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.

The effect of not tagging or logging all assets into a fixed asset system results in a higher probability that errors or theft could occur and not be timely detected, if at all. This is especially true for small and attractive items such as computers which have a high potential for misappropriations.

This situation occurs because the county has not implemented proper internal controls and procedures to adequately protect and account for fixed assets.

We recommend that the county improve internal controls over fixed assets by:

- a. Establishing and maintaining comprehensive general fixed asset accounting records, including supporting documentation.
- b. Performing a comprehensive independent annual physical inventory. The results of the physical inventory should be reconciled with the general fixed asset control records, with differences resolved and recorded.
- c. Identifying county assets with property tags in a timely manner.
- d. Identifying in the property records federal funding sources as required by federal agency requirements.